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SIPDIS

DEPARTMENT FOR SCA/INSB, AND EEB/IFD/OIA
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SUBJECT: MALDIVES ON THE BRINK OF BANKRUPTCY

¶1. (SBU) Severe balance of payments imbalances, crushing government debt, and a decline in revenue have brought the economy of Maldives to the brink of collapse. In meetings with the Charge, Maldivian Foreign Minister Ahmed Shaheed, Vice President Mohamed Waheed, and former opposition Quamee party leader and former Attorney-General Hassan Saeed highlighted the economic turmoil the country has been experiencing over the last year. Foreign Minister Shaheed said that an IMF team would be arriving in Male the week of August 10 to conduct an assessment and determine how much money would be needed to stabilize the economy. The Foreign Minister expressed concern about the loan, noting that the government had no experience dealing with the IMF. He was unsure how the Cabinet would react to a loan. According to Hassan Saeed, the Central Bank had USD 67 million, or ten days, of foreign reserves. Vice President Waheed described the monetary situation as (begin quote) desperate (end quote).

Maldives: The Long Decline

¶2. (SBU) There have been signs for last year that the financial situation in Maldives was worsening. Opposition leader Saeed told PolOff that the IMF called the country's economy the most precarious of any in the world. Press reported that, in an attempt to control spending, President Nasheed asked cabinet ministers in June to institute a 20 percent pay cut and also to stop renting private properties for government offices. A long-term foreign currency shortage has gotten more severe; government officials attribute the cause to the large budget deficit left by the previous administration. The private sector is also feeling the effects of the crisis; an attorney active in civil society told the PolOff that there is a USD 100 limit on daily withdrawals from banks, limiting Maldivians' local access to foreign currency.

¶3. The new administration came to power in November 2008 when President Gayoom was voted out of office after a rule of 30 years. Gayoom's administration spent freely on projects intended to foster growth and development. Projects worth USD 117 million were awarded to contractors in 2008 alone, but only USD 10.2 million of the money owed has been paid to date. The current 2009 budget deficit is at USD 109 million. Total debt has reached USD 445 million, or almost 60 percent of GDP, making it one of the world's most debt-laden countries.

New Government Unable to Stop Downward Economic Spiral

¶4. (SBU) While the Nasheed administration had no control over the spending of the previous government, it did little to improve Maldives' financial situation when it first came to power. Government salaries and employee rolls were increased throughout the

administration, resulting in additional payments of USD 78 million. Rather than tighten spending or increase revenue, the government borrowed USD 187.5 million from the Central Bank, the equivalent of printing money, increasing inflationary pressure.

¶4. (SBU) The poor condition of the government's finances was exacerbated by the economic crisis. The IMF predicted a 4.5 percent decline in GDP. According to Vice President Waheed, there has been a 10-12 percent decline in tourist booking rates and fisheries' catches have been low. Construction, the third major source of government revenue, is also down.

¶5. (SBU) There have been some sources of relief for the government. In December 2008 India pledged over USD 100 million in aid through interest-free loans. It was the largest amount of aid given by India to the Maldives in the last 40 years. The government is hoping to begin increasing revenue by doubling the lease period for resorts from 25 to 50 years, which officials hope will generate USD 93 million. New taxes aimed at increasing revenue have been implemented. However, both the change in lease periods and new taxes will take time to generate revenue. The government also hopes to increase the amount of money it receives from tourist resorts. Currently, for a hotel room that ranges from USD 200 to USD 500 a night, the government only earns USD 8 in revenue.

Comment

¶6. (SBU) Many of the economic problems that Maldives is facing are a result of poor financial decision-making on the part of the previous administration. It took the current administration several months to

COLOMBO 00000805 002 OF 002

understand the severity of the crisis. Once it did, officials requested aid from the IMF. The government has been assiduous in implementing IMF recommendations like the 20 percent reduction in public sector wages.

¶7. (SBU) Maldives has been a consistent ally of the United States and has been forward leaning in supporting USG initiatives. We should do what we can to support the new, democratically elected government in improving the country's fiscal situation and strengthening the economy.

MOORE